

OPINION

The cost of a strong Canada Pension Plan is that the survivor's benefit is pretty bad



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COMMENTS

With one exception, complaints about the Canada Pension Plan as a source of retirement income can be explained away fairly easily.

The CPP is reliable, inflation-protected income paid as long as you live. It's not enough to retire on, but it can be considered as a major piece of anyone's retirement income flow. Where the CPP falls down hard is its survivor's pension.

I have heard two decades' worth of grumbling about the CPP from readers, and the survivor's pension is the one aspect I can't easily defend. If a recipient of CPP retirement benefits dies, the amount of the survivor's pension will very likely disappoint the surviving spouse. The decline in retirement income is even more striking when the loss of the deceased spouse's Old Age Security benefits is factored in.

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The federal Liberals have promised to increase the survivor's pension by 25 per cent if elected, and raise OAS benefits by 10 per cent for seniors starting at age 75. The extra amount of CPP survivor's pension would max out at \$2,080 per year, a modest improvement.

The CPP survivor's pension is available to common-law or married spouses of people who contributed to the CPP. The benefit isn't just for people who are retired or close to that

point. Thanks to recent changes, spouses under 35 can now apply for it, even if they aren't disabled or looking after dependent children.

The maximum CPP retirement pension is \$1,154.58 per month, but the average amount received as of March, 2019, by new beneficiaries was \$679.16. The maximum survivor's pension at 65 and older is \$692.75, while the average amount in that age group was just \$311.99 for new beneficiaries who were 65 and older.

Asked for the rationale behind the calculation of the survivor's pension, Employment and Social Development Canada spokesperson Megan McMaster replied in an e-mail that this benefit reflects the fact that the CPP is not designed to meet all of an individual's income needs. "These limits also help ensure that the Plan remains affordable for Canadian workers and their employers," the note said.

This squares with pension consultant Doug Runchey's explanation for the meagreness of the survivor's benefit: "I think it's simply to reduce costs [related to paying benefits]."

A lot of moving parts go into the CPP being something people can count on to make a significant contribution to their retirement. Among them are the amount of benefits paid out, the amount of worker and employer contributions and the way these contributions are invested. Limiting the amount of survivor benefits is part of this same process. By keeping them modest, there's less financial strain on the CPP.

The implication for retirement planning is that retired couples need to pay close attention to how their finances would be affected if a spouse with CPP benefits (and OAS, for that matter) died.

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Mr. Runchey said the survivor's pension works best when the surviving spouse has no CPP contributions of their own. In this case, a surviving spouse aged 65 or more now gets 60 per cent of the deceased partner's CPP. Under age 65, the survivor gets 37.5 per cent of the contributor's pension plus a flat monthly rate amount that this works out to \$193.66.

"The basic formula isn't all that unfair in this situation," Mr. Runchey said. "The problem is when the survivor's benefit gets combined with the surviving spouse's own CPP."

You cannot stack a survivor's pension on top of the maximum CPP retirement benefit. Neither can you always combine your regular CPP retirement payment and a survivor's benefit up to the annual monthly ceiling of \$1,154.58. That's because formulas are applied to always reduce the survivor's pension when a recipient already has CPP benefits, even if the combined benefits would not reach the maximum benefit amount.

Mr. Runchey said the calculations are so complex that he's found errors in the information provided to his clients by Service Canada, which administers federal government benefits. "They get paid the right benefit in the end, but they don't get told the right information ahead of time," he said.

Spouses facing a big decline in CPP and OAS income after the death of a partner may be able to get some relief through the Guaranteed Income Supplement. GIS is meant to help the lowest income seniors, though. A widowed pensioner with income above \$18,408 would not be eligible for GIS.

With their longer lifespans, it's women who are most at risk of a much-reduced retirement income when a spouse receiving CPP benefits dies. Retirement planners and couples at or near retirement need to address this issue directly.

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